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JOURNAL OF PROCEEDINGS

of

WASHINGTON FO CONFERENCE

May 19 - 24

Friday, May 19, 1944

I. RESUME OF OPENING STATEMENT BY MR. R. W. HUDGENS, ASSOCIATE  
ADMINISTRATOR, FARM SECURITY ADMINISTRATION

The impression is that we are taking time out for a conference but in reality we are not as revealed by the following reasons:

1. The ordinary conduct of business and administration of the program demands the free and intimate exchange of ideas between the Administrative and Operating people. Efficient clearance of policy is extremely important.
2. The testing which our organization has been through and the scars, bruises, accusations and counter accusations suffered make the conference timely. Furthermore the authority to point out what is wrong doesn't have to originate elsewhere, but it is the conviction that comes from self analysis that counts from here on out.
3. Knowledge is power. This interpreted administratively means that authority usually follows the man who knows his onions. We say we have already learned how, but we staked out a big claim and have never thoroughly worked it. Even if the emphasis is on new ideas growth is easier where the ground is efficiently prepared.
4. Certain factors are shaping up that indicate a show-down on land policy. In fact the spotlight is more completely on shaping land policy than anytime since the Homestead Act! You are not insulated from all this. We are contributing to land policy.

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## II. RESUME OF STATEMENT BY ADMINISTRATOR

Funeral arrangements for Farm Security, if I can judge things right, have been definitely called off and some of the self-constituted pall bearers have retired in disappointment. The agency now enjoys, I believe, a prestige in Congress which it has never had before. This is due, not to new leadership, but to the fact that as a result of the Cooley investigation Congress for the first time really understands the work of this organization.

The facts with respect to the legislative situation are briefly these: If the Pace point-of-order bill is passed we will have basic legislation to carry on the RR program. The House Appropriations Committee recommended \$15,000,000 for Farm Ownership with \$750,000 for administration expenses. The Senate Appropriation Committee recommended, and the Senate itself has passed a bill which increases the \$15,000,000 to \$20,000,000 and increases the administrative expense item to one and a half million. This bill includes authorization for loans, grants, and rehabilitation to \$96,710,000, with \$28,265,000 for administrative expenses and \$1,025,000 for Water Facilities loans.

The Pace point-of-order bill is still in conference. Neither of the Houses has yet approved the conferee's report. The Cooley bill is still very much in the minds of members of the House Agriculture Committee. There are one or two points giving trouble, the main controversy being whether the corporation set-up or the non-partisan board will prevail and under what overall direction. It is doubtful what will happen immediately but we will not give up until we have the program fixed on the statute books by special act. There is no reason, in my opinion, for any employee of Farm Security to feel insecure in his job so long as he is doing a good job. I have always visualized the Farm Security program as starting with RR and ending with FO. It is after all one program.

I see no excuse whatever for an FO borrower being delinquent today, regardless of whether he is on the fixed or variable plan, unless he has suffered misfortune. If a man can't meet his payments under present favorable conditions either he isn't worthy of the farm or we aren't worthy of the jobs we are holding.

I am confident that the conference, under the leadership of your able Director, Paul Maris, will bring forth many able and constructive suggestions. As I have said before, the best antidote for criticism from without is criticism from within. You are therefore invited to open up and tell us what is wrong in the regions and what is wrong in Washington from the Administrator down. When you have done that in the right spirit you have done your duty but not until then. Also, please remember to come to see me while you are here.



### III. RESUME OF STATEMENT BY ROBERT H. SHIELDS, SOLICITOR

Obviously the Farm Security Administration desires to administer its programs in accordance with and within the bounds of its enabling legislation. The Solicitor's Office will cooperate fully to facilitate FSA's operations in line with the policies approved by its administrative officers. It is well to remember that the spirit of legislation should be followed as well as the letter, otherwise difficulties may result.

A genuine interest in the program of FSA was evidenced and it was indicated that our organization was one of the main clients of the Solicitor's Office.

With reference to the Cooley bill it is apparent that considerable confusion exists in connection with certain features of the bill. There is a feeling that the mortgage insurance idea tends to be inflationary. It is generally accepted that the FSA program should operate only in those fields where other sources of credit cannot do the job. However, there is considerable wrangling as to language on this point in the bill. There has also been much discussion concerning the language dealing with supervision which leaves us somewhat in doubt in connection with the welfare of the borrower, inasmuch as it provides only that the Government will do whatever is necessary to protect its interests and will prescribe conservation practices.

There are three rulings recently rendered which should be mentioned.

1. Price Adjustments in MA-FO Cases. No authority exists that allows the Government to cancel a contract to its detriment.
2. Compromise. Under the compromise authority the basis of settlement must be the best financial arrangement to the Government. Accordingly, the key to this would be the determination as to whether or not the Government is getting the most that it can get.
3. Release from Liability in Connection with Transfer Cases. This can be accomplished simply by making a new loan to another eligible family to completely cover the outstanding indebtedness to the Government. However, it may not be desirable as it will deplete the loan funds. Also the Tarver limit often makes re-sale through this method impossible.

The final interpretation on this matter is now under consideration and after we have had an opportunity to talk it all over together, an answer will be given before the conference closes.

### IV ROLL CALL OF REGIONS - PROBABLE BALANCES OF UNEXPENDED FUNDS

	Probable Balance end of Fiscal Year
Region I	40,000
Region II	20,000
" III	1,000,000
" IV	2,000,000
" V	250,000
" VI	1,800,000



Probable Balance  
end of Fiscal Year (con't)

Region VII	80,000
" VIII	5,000
" IX	400,000
" X	80,000
" XI	10,000
" XII	40,000
" XIII	190,000
	<hr/> 5,915,000

In addition, the regions were asked to present facts with respect to the trend in land prices, experience this year in buying farms, and the prospects for carrying the program forward next year. The reports revealed the following information:

1. In general, land prices have advanced considerably and in some regions, particularly II, IV, VII, VIII, IX, X, XI, and XII, they are still rising. Two exceptions appeared to be Regions V and XIII. In Region I the rise in rural land prices appeared to be a correction of sub-normal values and for the most part earning capacity values prevail. In Region XIII it is anticipated that next year land prices, if anything, will be lower.
2. Experience This Year. Principal factors which handicapped the operation of the program were (1) price limit, (2) county fund limit, (3) increased building costs, (4) inexperienced personnel and shortage of personnel. Despite difficulties encountered from these causes, farms could be bought; one reason being the number of cases in which it was possible to purchase land because of estate settlements, sale by absentee landlords and other exceptional conditions.
3. Prospects For Next Year. Regions I, II, V, VI, VII, VIII, XI, and XIII all felt that it would be possible to keep the program moving next year in spite of high land prices. Regions III and IV and the Far Western regions were much more pessimistic.

#### V. THE CONFERENCE JOB.

A copy of this statement by Mr. Maris, Director of the Farm Ownership Division is attached.

#### VI. DISCUSSION - CLASSIFICATION OF PROBLEM CASES, LED BY MR. LANDESS, Sr. AGRICULTURAL ECONOMIST.

Reasons for FO borrowers becoming problem cases need to be recognized before classifying them and proposing remedies. The following list of reasons was developed by the discussion leader and amended by the conference group.

1. Insufficient gross cash income.
  - a. Inadequate farm.
  - b. Poor operator.
  - c. Adverse weather conditions.



- d. Insufficient time to reorganize and get into operation.
2. Expenses too heavy.
3. Unwise use of net cash income.
  - a. Paying too heavily on old debts.
  - b. Buying too much capital goods .
  - c. Paying too heavily on FO loan; allowing production loan to pyramid.
  - d. Holding back too much operating capital.
  - e. Making unwise and unplanned expenditures.
4. Failure to account for all income.
5. Failure to keep records.
6. Inventory kept too heavy.
7. Failure to develop and maintain soil and fences.
8. Failure to maintain buildings and equipment.
9. Borrower not living on farm.
10. Borrower living on farm but working elsewhere.
11. Borrower leasing another farm.
12. Borrower renting FO farm to another operator.
13. Borrower purchasing another farm.
14. Borrower returning construction money, refusing to build.
15. Borrower desiring to sell his FO farm.
  - a. Within 5 years.
  - b. For speculative reasons outside the program.
16. Borrower using sharecropper to operate part or all of FO farm.
17. Borrower slow to complete construction.
18. Family - relation trouble.
19. Borrower dissatisfied with community.
20. Failure to adjust to new soil type.
21. Borrower drafted.

Saturday, May 20, 1944

## VII DISCUSSION - PREVENTION AND CURE OF PROBLEM CASES

### A. Family Selection

It was the conclusion of the conference group that most of our troubles grow out of difficulties with families rather than faulty farm selection.

In response to the question by Mr. Maris, "Is this Family Selection problem something that is inscrutable or is there some way of getting into this thing and overcoming it." Julian Brown, Region V voiced the opinion that in the majority of cases potentialities are present in the families but we fail to develop them.

An examination of FSA Instruction 655.5 II A was made to determine if the many causes originally foreseen as leading to transfers and foreclosures were still valid and could for the most part be overcome by more careful selection of applicants and farms. The above mentioned procedure is



quoted herewith:

"The following are among the situations often overlooked which are likely to lead to avoidable transfers and foreclosures and county FO committeemen should be advised as to their importance and asked to give them due consideration when passing upon applicants and farms:

1. Making loans to families who do not fully understand and agree to the provisions of the informal agreement Form FSA-317, "Agreement."
2. Making loans to families whose aspirations and capacities are likely to cause them to expand their operations beyond the scope of the family-type farm.
3. Making loans to applicants who are equipped to operate or who have been accustomed to operate on a larger scale than a family-type farm will permit.
4. Making loans to applicants who in times past have gained their livelihood in occupations other than farming and who are likely to want to return to those occupations when opportunities are favorable.
5. Locating families on farms which will necessitate the adoption of a system of farming to which they are not accustomed.
6. Locating families in communities in which some or all of the members are likely to be dissatisfied because of a change in neighborhood or in racial, religious or social environment."

Following a point by point discussion of this procedure the group reaffirmed their belief that if any of the above situations were overlooked at the time of family selection that problem cases were quite apt to result.

A problem common to all regions was brought out in the course of the discussion of paragraph II A 3 of FSA Instruction 655.5 quoted above. Mr. Lodwick stated that the idea of expansion is deepseated in the Corn Belt and it is difficult for many people to understand restrictions designed to prevent our borrowers from expanding. Mr. Maris stated that it is not a question of placing restrictions upon the borrowers' ultimate operations, rather it is a case of the amount of expansion we should permit while a borrower is the beneficiary of a subsidized program. We have in this country, always paid tribute to the farmer who is able to increase his holdings and expand his operations. This has been accepted and properly so as a mark of success.

Mr. Landess expressed the opinion that the rule of "No expansion until the debt to the Government is repaid" might solve the problem. There was general assent to this idea.

Ed Green asked: "If we are not obliged to take into account the fact that when a man expands his holdings beyond his needs for a family farm operation, he is preventing someone else from enjoying the privileges of becoming a farm owner?"



It appeared to be the consensus that sentiment is against restrictions on individual enterprise. The Administrator stated that we ought to be very happy when our borrowers are successful enough to step out and buy more land. It was agreed, however, that buying additional land on thin margin before liquidating the debt on the farm purchased with the proceeds of a TP loan, is hazardous and ought to be discouraged.

On the specific question as to whether we ought to make a supplemental loan to a borrower to enable him to purchase more acres, Mr. Hancock stated: "If his present farm is an economic unit and the borrower is succeeding we had better use the money to help another deserving borrower."

At the conclusion of the discussion it appeared that Mr. Landess' proposal of requiring that a borrower pay off his TP loan before buying more land is, in general, a practical and workable policy.

Mr. Maris then focused the attention of the conference group on the FSA 317 Agreement Form which was developed about 3½ years ago to assist the borrower in understanding just what was involved in a loan under our program. When asked, "Is the Agreement fulfilling the purpose intended?", the group responded unanimously in the affirmative.

The individual testimonies are set forth herewith as a matter of record:

Julian Brown (Reg. V) "I believe it is very helpful in understanding our program."

W. J. Green (Reg. VIII) "I believe that the reading of the 317 Agreement in meetings of applicants is very helpful in getting the program before the people. It helps us to cull out the problem cases from the start. Our state and county committees like it."

T. B. Fatherree (Reg. VI) "Our County Committees use the 317 Agreement religiously in putting the program before applicants and the public."

C. Carter Chase (Reg. IV) "It is the best basis for common understanding of the intents and purposes of the program."

W. F. Kauffman (Reg. I) "The greatest value this 317 Agreement has is that it eliminates the problem cases at the start. I don't feel that our borrowers understand it uniformly by any means but increasing emphasis is being placed on their thoroughly understanding it."

James H. Dance (Reg. II) "It is absolutely the best safeguard against subsequent misunderstanding."

Charles Slack (Reg. IX) "We think the Agreement is good. It enables us to have some assurance that the applicant understands what is expected of him and it helps in future servicing. Our committees like the Agreement and use it in their interviews of applicants."



Howard Bertsch (Reg. XI) "I believe that generally speaking our borrowers understand the 317 Agreement. It certainly provides a basis for frank discussion and understanding of the program."

O. E. Tikkaner (Reg. X) "We use the Agreement in applicant meetings. Good farm land in the United States is limited and should be made available to as many farm people as possible. It is an exceptional method of explaining the requirements of the program."

S. D. Northup (Reg. XII) "The 317 Agreement is very good and it offers a real opportunity to bring out to the borrowers the philosophy and reasons behind the requirements of our program."

Frank Van Voorhees, (County FSA Supervisor Reg. II) "The 317 Agreement presents to the applicant a brief statement of the restrictions under which he will operate once he becomes an FO borrower. It is only fair that he understand our policies before he actually becomes a part of the program. A similar method of acquainting RR borrowers with the facts about the RR program has been used for some time with considerable success. The 317 Agreement serves the same purpose in the FO program."

Celestino Matta-Dueno (Reg. XIII) "The 317 Agreement is very useful. It gives the applicant a full understanding of what is expected of him."

B. W. Lodwick (Reg. III) "I believe that the 317 Agreement is a much simpler way of stating the basic requirements of the Act, Loan Agreement, Note and Mortgage. The families, through reading the Agreement obtain a clearer understanding of those requirements."

E. E. Greene (Reg. VII) "The 317 Agreement is worthwhile. It is important that it be explained that the form is not something developed by the Administrative Staff but that it represents the facts set forth in the Act itself."

The Administrator - Frank Hancock "It seems both fair and practical and is entirely consistent with the proper Administration of Title I of the Bankhead-Jones Farm Tenant Act. I do suggest one change in the form as follows: Insert the word materially before the word change in line 3, paragraph 5 of the agreement."

A brief discussion about the Family Information Schedule which appears on the reverse side of the Application Form led to the decision that this schedule was not adequate, should be studied and revised. The regions are requested to submit their suggestions on this point so that the National Office will have the benefit of their ideas when the revision is made.

#### HEALTH EXAMINATION

Dr. Mott gave a brief summary of the replies received from the regions to the recent questionnaire concerning the value and cost of the health examination and the desirability of its continuance. It was his conclusion from the replies that in general we had had poor examinations and not the proper follow-up work. He felt that the fault was primarily ours. It was his conviction that elimination would be a step backward, particularly so at this time when there



is greater emphasis on periodic health examinations and when selective service examinations have brought out so clearly the poor health conditions which exist in rural areas. It was his personal hope that the examinations would be retained and the proper steps taken to improve and expand them in scope. Mr. Maris expressed sympathy with Dr. Mott's desire that no backward step be taken in the health field. He felt, however, that if past experience indicated that the health examination had not been successful in accomplishing its purpose the situation should be viewed realistically. He suggested that the conference group consider two alternatives: (1) Press forward with the health examinations and attempt to further vitalize them; or (2) adopt them for use only in doubtful cases. The majority of the conference group favored the proposal to use the examinations only in doubtful cases. Mr. Landess felt that the chief difficulty in the past had been the lack of understanding on the part of doctors and families of the real purpose of the health examination. He pointed out that in spite of educational efforts the feeling still persisted that the real purpose of the examination was to prevent families with health disabilities from obtaining loans. He suggested as a remedy that we institute a new health examination form, which would be filled out by the family doctor and would consist of a few simple, easily understandable questions about the health conditions of the family and the corrective measures needed. This suggestion won favorable response from several of the regions. Mr. Maris stated that the whole matter would be presented, by Dr. Mott and him, to the Administrator for consideration and decision.

#### B. FARM SELECTION - Talk and Discussion led by J. D. Pope, Sr. Agricultural Economist.

The selection of the right kind of farms is a vital factor in the prevention of problem cases. Frequently a poor farm with resulting low income is a factor in a problem case that is supposed to be due to poor family selection.

The earning capacity approach has been a useful tool in the selection of good farms. We have reason to be gratified because of the recognition that has been given to our earning capacity methods by the Secretary and the War Food Administration. The expression "normal earning capacity" appears in the Cooley bill. The Administrator has emphasized it in Administration Notice 541. However, we are just beginning to use this tool with its greatest effectiveness and must constantly strive to do a better job.

When the war broke out, we recognized that a problem of considerable magnitude confronted us, if the pattern of World War I was not to be repeated - the inflation in land prices with the subsequent deflation. In April 1942 we issued Appraisal Bulletin No. 2 on "Trends in Farm Real Estate Values," in which was discussed the factors affecting swings in land prices and some of the ways of meeting the situation. In June 1943 we issued Appraisal Bulletin No. 4 on "Holding the Line in FO Farm Real Estate Values." Recently we sent you the March 1944 report of the BAE on the "Current Farm Real Estate Situation," and a speech by the Secretary on "The Dangers of a Land Boom."

It is important to interpret the BAE figures intelligently. The fact that values in a given state have risen say 30 per cent does not mean that the



values in every county or on every farm have risen to that extent. Some counties and some farms have risen more and some less. We must find the areas in which farms can still be approved on a long-time earning capacity basis.

A map based on information received from the Regions, was reviewed which clearly revealed that in many of the states there are areas in which inflation of land prices has seriously handicapped the program, and other areas in which conditions are more favorable.

The following conclusions were accepted in connection with the operation of our program the coming year.

1. There are still many previously designated areas where land may be purchased in line with earning capacity value, and also areas and counties not designated where good loans can be made.
2. If our County Committees are properly trained and schooled in the program, they should be in a position to help in the selection of farms satisfactory to our program. There is less turn-over of committee personnel than of county personnel. The committees, therefore, should be helpful.
3. We are faced with the necessity of appraising more farms per loan made than we have done heretofore, but the ratio should be reduced and held to a minimum.
4. Generally speaking, our committeemen have done a good job, but they should be used much more in assisting in farm appraisals. In this connection they should be closely supervised and carefully trained.
  - a. The number of appraisals that must be made to make one loan may be reduced by training our county committees to cull out the undesirable farms.
5. We must constantly be on the lookout for the "good buys." Frequently in connection with estate settlements and sale of farms by absentee landlords, units may be obtained at reasonable prices. Supervisors and committeemen must be constantly alert for these favorable opportunities.

Concluding the discussion Mr. Pope said: "In our Earning Capacity Report and our entire appraisal field, we feel that we are on a sound basis and furthermore are staying on the safe side by keeping in line with long-time average prices. We've been in touch with FAE and they have advised us on this problem. They confirm our thinking in stating that we are wise by remaining conservative in this respect."

#### VIII RESUME OF TALK BY MARVIN JONES - WAR FOOD ADMINISTRATOR

Of all the legislation I have had the privilege to handle, it is the Tenant Purchase legislation that I enjoyed working on most and derived the most satisfaction from. We got only a modest start, but you have real reason to be proud of the work you are engaged in.

I have been hoping that monied people would join in an effort to endow a movement which would encourage farm ownership. I can't think of a better



contribution than leaving money to a well organized body or agency engaged in this work.

I urge all to create good public relations in connection with this great movement. If the feeling that we are missionaries and the spirit of tolerance and good will permeates this organization success in this respect will surely be attained.

Always there must be a safeguard against becoming overenthusiastic about some features of the program and on the other side the danger of becoming bogged down by routine and the less interesting phases of the work.

The accomplishment of keeping up your zeal and still keeping your feet on the ground, so to speak, requires the highest type of workmanship.

You are to be congratulated on the job you are doing.

Mr. Hancock was a staunch supporter of the TP program in Congress. He has shown great talent in administering the Farm Security Program since his appointment. In fact he has had free rein.

## IX. DISCUSSION - RECORDS, CONTROLS AND LOAN PROCESSING

### A. Resume of Statement by Paul Vann

Mr. Vann referred to the Administrator's statement that the way to avoid criticism from without is to invite criticism from within, and stated that the only way to get sound criticism is a sound system of records and reports and a sound evaluation of the reports. He pointed out that it is much easier to attack reports as being insufficient and inaccurate than to correct weaknesses. He also cautioned against a misinterpretation of the use of the word "controls." He emphasized that the whole purpose of the entire records and controls system is control, but that the only really effective control is firm administrative action, and that it is with respect to action that we have been most weak. He pointed out that transmittal of information is not administrative control but that it consists rather in the man at one level giving the man at the next level very clear instructions.

### B. Records and Controls

Mr. Maris asked Mr. Vann whether it could be safely assumed that our present Kardex and area guide systems were basically adequate and workable. Mr. Vann replied in the affirmative. He said there are too many signals now on the area guide but this can be remedied. Mr. Lodwick stated that there is ample evidence that county and district supervisors who have made an effort to organize their work have accomplished much more than those who have not done so. He felt, however, that there still remained a great amount of work to be done with field people to get them to realize that administrative aids are a help to them.

A brief discussion of the FO Kardex system in regional offices revealed



that its transfer to the regional FO Division or Section had greatly vitalized its use.

A discussion of the delay in submitting Form 497, "Notification of First Payment Date" resulted in the general conclusion that it would be desirable to include provision in the regional attorney's closing instructions that Form 497 should be submitted promptly to the regional FO Division or Section.

The regions were canvassed with respect to the practice of establishing district fund quotas and the consensus was that this in the main was the function of the state director. None of the regions appeared to be experiencing any difficulty with respect to keeping fund obligations within amounts available.

The next question raised was whether copies of the Acceptance of Option, LE-191, were being submitted to the regional office promptly and whether the amount of the loan and the date of mailing the title insurance application were being inserted on the regional office copy. It appeared that difficulty had been encountered in getting the form transmitted promptly and in getting county supervisors to provide the required information, but it was agreed that this could be remedied. The question was raised of whether it would be advisable to have the amount of the loan filled in on a copy of the district supervisor's loan approval letter and sent to the regional office in addition to the copy of the LE-191. The opinion on this point was not clear-cut but it was agreed that the discussion had provided sufficient information for the national office to work out a procedural solution.

Monday, May 22, 1944

### C. TAX CONTROLS

The discussion of this subject was centered on the question of whether we should require the borrower to turn in his tax receipts and maintain them in our files. Mr. Farabow explained that his experience with tax problems had convinced him that the only "air tight" method which could be used by the Government to fully protect its interests would be to require that the receipts be turned in. He pointed out that if court action is brought, the original receipt would be accepted as prima facie evidence that the tax had been paid in accordance with the receipt. Regions III, IV, and X were strongly opposed to requiring the borrower to turn over his receipts. Mr. Chase was emphatic in his opposition, stating that he considered this to be an infringement of the borrowers' rights. It was maintained by Mr. Brown and Mr. Fatherree that if receipts were required this would make it unnecessary for county supervisors to perform the time-consuming and burdensome task of checking the tax records as is now being done. Mr. Bertsch felt that the present system was unsatisfactory and needed revamping and he was of the opinion that it would not be objectionable to require the borrower to submit his receipts. Mr. Hauter pointed out that in many counties there are



several different kinds of taxes and this would mean that there would be a considerable volume of receipts to be maintained in the files. Mr. McLaughlin also called attention to the fact that unless the receipts were sent to the regional office they would not be maintained in fire-proof files and there would be danger of fire loss. Mr. Lodwick proposed that the problem could be solved by making a record in the county office of the number and date of each receipt and the amount paid. Mr. Ed Green liked this proposal, making a further suggestion that this record be submitted to the regional office. It was Mr. Farabow's opinion that the proposed county office record might be workable since it could also be introduced in court and would result in a mandamus to produce the original record. It was also his opinion that if the county office record were adopted a review of the tax should be made the following year to determine whether any errors had been made.

Mr. Kauffman suggested that a simple certification form be developed for use in reporting the payment of taxes. This form would be signed by both the supervisor and the tax collector, thus certifying that taxes on the FO farms listed thereon were paid. A copy would be retained in the county office and the original forwarded to the regional office.

Mr. Maris asked the conferees to indicate their judgment with respect to whether the policy should be (1) to require receipts or (2) to require merely that the receipts be shown at the county office and a record made of the receipt number, date, and amount. Regions V, VI, VIII, IX, XI, and XIII were in favor of the requirement that receipts be submitted and filed. Regions I, II, III, IV, VII, and XII were in favor of the county office record of the information on the receipts.

#### D. MECHANICAL EXAMINATION OF FO DOCKETS

There was unanimous agreement that mechanical examination of dockets by the Finance Division is being handled satisfactorily. A report of the percentage of errors in FO loan dockets, compiled from Finance office records, was read by Mr. Gehr and it was agreed that the report indicated the need for additional training of county office personnel in the correct preparation of dockets.

#### E. FO-LOAN ACCOUNT RECORD - COUNTY OFFICE

The question was raised of whether the present system of maintaining county office records of the accounts of FO borrowers is adequate. It was agreed that the maintenance of copies of receipts, schedule status reports and statements of account should provide a workable method and should not be changed until there had been further experience with it, although Regions IV and VIII indicated a desire to experiment somewhat with loan record and loan ledger sheets in the county office.



## F. REPORTS

A discussion of reports, led by Mrs. Donner, brought out the fact that in most of the regions the fall schedule status reports needed for preparation of annual income returns, had not been received in time to be utilized for that purpose. Mrs. Donner emphasized the importance of checking the schedule status reports just issued to determine whether the type of payment plan, amount of annual installment, etc., were given correctly, and that the FSA supervisors check to see that all collections listed on the 1044 and received in the Disbursing office by April 10, are included. This led to a complaint from several of the regions about borrowers being listed on the schedule status report as being on the fixed instead of the variable plan. This had occurred in some cases apparently because variable payment agreements were still in the regional office file rather than the Finance file. Mr. Lodwick indicated that similar errors had occurred in his region last year but that some work with the Finance Division had straightened out the errors and that the reports this year were in good shape. Mrs. Donner also emphasized the fact that the annual collection reports submitted on Form 678 were relied upon as the source of information for Congress and the general public. She pointed out that it was the responsibility of the regions to review the reports carefully and if serious errors had occurred to prevail upon the Finance Division to issue revised reports. The question was raised of whether all FO borrowers should be included on one report, or whether reports for FD borrowers, including former FHI and SRE cases, should be separate. There was general agreement that reports for FD borrowers should be compiled separately, since very different standards had been used in the selection of these borrowers and their repayment records were much poorer, many of them having transferred to the variable plan because they had been in difficulties on the fixed plan.

Miss Walsh talked briefly about the current situation with respect to procedures. Her remarks brought out the following facts: Revisions in procedure are being delayed until legislative matters are clarified. This is being done in order to avoid issuing revised procedures now and then being forced to issue them again if new legislation is provided. The majority of the instructions in the manual are to be revised after the first of the new fiscal year. The regions were urged to submit any desired changes in procedure prior to that date. It was agreed that the regions would be furnished with a list of the changes which were already contemplated. With respect to forms, Miss Walsh indicated that it was hoped to have supplies of the Annual Income Return in the regions by the first of September, and that a liberal quantity would be printed. She stated that no new forms were contemplated, with the exception of the district supervisor's loan analysis form, which was under consideration. A brief discussion of the merits of this form followed.



Evening Session - May 22, 1944

## X BUDGET AND PERSONNEL PROBLEMS

As a result of a round table discussion on personnel and budget matters the following consensus of opinion was evidenced:

- (1) That the FO regional organization as developed a year ago appears to be meeting the requirements. This does not include the clerical classification as it has not yet been studied and perfected.
- (2) That in the large caseload states we need a top man in the state under the State Director who will essentially devote his time to the FO program. This man should be classified one salary grade above the district supervisor.
- (3) That the arrangement at the district level with the district supervisor approving FO loans should remain unchanged.
- (4) That we should do nothing that would destroy the unity of the county office organization.

Tuesday, May 23, 1944

Mr. Gehr requested the conference group to give a definite expression of their views with regard to engineering services. The previous evening's discussion had revealed clearly that a high degree of cooperativeness on the part of the engineers had been experienced in all regions, but nothing definite had been concluded as to desired future arrangements. Immediate consideration was given the subject presented and the group concurred that from an administrative stand-point it would be desirable to have the Engineering Organization incorporated into the FO Division.

## XI CONSIDERATION OF LIST OF LEGAL QUESTIONS

Mr. Maris requested Mr. Green from Region VIII to read the list of legal questions which had been transmitted to the Solicitor as suggested topics for the scheduled evening session in the Solicitor's office. Several additional questions were proposed and noted by Mr. Dickey, the Solicitor's representative, at the morning session.

### A. Sale of Farms Outside the Program

Question 5 on the list, dealing with the problem of transfer cases, prompted a discussion of whether farms should be sold outside the program when a loss to the Government would be involved if they were sold inside the program. Mr. Maris pointed out that public criticism would undoubtedly arise if we did not attempt to avoid loss by outside sales. Mr. Fatherree agreed with Mr. Maris and stated that in his opinion the damage to the program which would result from public criticism in such cases would be more serious than the loss to the



program of the farms involved. There was general agreement that the number of such farms would be relatively few. Mr. Maris then called for a vote from the regions which would reflect the prevailing viewpoint with respect to the policy desired. Eight of the regions favored the policy of selling outside the program to avoid loss and the remaining five favored the policy of attempting to keep farms within the program.

#### B. Foreclosure on Basis of Variable Payment Plan

When Question 9 with respect to foreclosure was read Mr. Brown asked for a consideration of the question of foreclosing variable payment borrowers. Mr. Maris stated that in the early years of the program there had been reluctance to institute foreclosure proceedings on the basis of the variable plan because this plan was new and untried and it was questionable whether it could easily be explained and justified in the courts. He felt that we had had sufficient experience with the plan now so that we could attempt to foreclose under it. The conference group was unanimously in favor of pursuing such a policy.

### XII PROPOSED COLLECTION METHOD

Mr. Landess opened the discussion on this subject by telling of his recent field studies with respect to the whole question of problem cases. As a result of these studies, he said, he had reached two definite conclusions:

1. An organized and systematic attack on collections is possible.
2. The problem cannot be solved by perfection of a procedural system alone, but by a combination of a proper system plus the proper administrative "punch."

As an illustration of one of the discoveries which had led him to these conclusions he described the case of a county supervisor who had been continuously in the program since 1936 and who had achieved an outstandingly good collection record in his county. He said the supervisor had told him that his good record had been achieved by concentrating on these three things:

1. Selling the borrower on the idea of paying for his farm.
2. "Living" with the borrower and letting him know that collections are expected.
3. Estimating in advance with the borrower what his annual payment is to be.

Mr. Landess then presented the proposed collection plan evolved as a result of his field observations (copy attached). There was general acceptance on the part of the regions of the proposed plan. Mr. Lodwick remarked that it followed somewhat the plan used in one of the counties in his region having a remarkably good collection program. In this district, he said, the district supervisor claims that "none of his borrowers know the grace period."



Mr. Landess then distributed tables showing the distribution of 1943 cash income for 149 normal case borrowers in seven counties in Tennessee, and 113 problem case borrowers in North Carolina. These tables revealed some significant data with respect to the unwise use of income and the resulting symptoms of problem cases. Although the percentage of net cash income applied to the TP loan showed no consistent pattern the percentage of the gross cash income so applied did reveal a norm of approximately twenty per cent minimum for successful borrowers. Mr. Maris pointed out that as additional compilations of data such as this are made we will be able to arrive at standards which can be used nationally.

### XIII REPORT OF COMMITTEE ON ANNUAL INCOME RETURN

Mr. Hauter then presented the report of the committee to consider suggestions for revisions and use of the Annual Income Return, the summary of which was as follows:

#### The Committee Recommends -

1. That no changes be made in the Annual Income Return (Form FSA-528) for 1944.
2. That further consideration be given to the advisability of having an extra copy of the annual income return prepared for use in the state office.
3. That special emphasis be placed on instructing State, District, and county personnel in the preparation and use of the Annual Income Return. This is suggested for the purpose of saving time and for the purpose of making more effective use of it. A county supervisor who thoroughly understands the form will be able to complete the form in much less time and he will get much more effective results.
4. That consideration be given to the possibility of eliminating the progress report for FO borrowers since in many respects, it duplicates the Annual Income Return.

The recommendation of the committee that the family progress report be eliminated and the data from the annual income returns substituted for it aroused considerable comment. All of the regions expressed dissatisfaction with the present progress report. They complained that it was necessary to go to the borrower for information not provided by the annual income return or the record book, and that this provoked resentment on the part of borrowers as well as supervisors. Mrs. Donner explained that the additional information required on the progress report had been for the purpose of supplying information with respect to war production, that the Program and Reports Division was aware of the difficulties which it had caused and that consideration was being given to a revised form. It was also explained that it was difficult to use the annual income return as a source of information with respect to family progress since it was an extremely complicated matter to code and tabulate it.



Mr. Hauter called attention to the recommendation that an extra copy of the annual income return be prepared for use in the state office. He stated that this had been rather hastily considered and that the committee would welcome the views of the entire conference group on the point. Several of the regions, particularly Region IV, were interested in seeing that this recommendation was put into effect, but the majority of the regions did not appear to think it was important.

Tuesday Afternoon - May 23, 1944

#### MEETING ON THE LIQUIDATION OF MA PROJECTS

Mr. C. Stott Noble, Assistant Administrator, defined the program of liquidation of MA projects by the following broad policy statements.

1. Expeditious liquidation means orderly liquidation carried on as expeditiously as practicable.
2. Land should be kept in production whenever this can be done without interference with expeditious liquidation.
3. A reasonable maintenance program of land, drainage and irrigation ditches, etc. should be carried on in order to prevent deterioration and unsightliness that would materially adversely affect the sale.

The conferees were asked to make suggestions that would be helpful in formulating a policy concerning further development for sale for both project units and land purchasing associations (including defense relocation corporations and Alluvial Farms). From the discussion, it appears that units should be developed if they are suitable for selection as a Tenant Purchase farm under the Bankhead-Jones Farm Tenant Act and the degree of development is reasonable. It was not believed advisable to carry on extensive land clearing operations or land development activities in order to keep such properties in the program. There was agreement that caution should be exercised in subdivision of large tracts for sale within the program and that marginal or submarginal land should not be sold to FSA borrowers just because we have the land. It was agreed that, except where Tenant Purchase funds were used for the development, the development plans for each tract would be submitted to the Washington office for prior approval. The regions were asked to submit budget recommendations and full particulars.

Several regional representatives indicated a desire to speed up the procedure for selling surplus real property acquired with state RR corporation or joint-investment funds. Such sales are now restricted to those specifically approved by the Administrator as required by Administration Letter 723 (Classification 555). A recommendation was made that the regional director's authority to approve the disposition of tracts under 280 acres, covered in Administration Letter 656 (Classification 153), be reinstated. It was requested that regional directors submit surplus RR corporation land cases to the Washington office with the understanding that, upon approval by the Administrator, regional directors would be authorized to sell the tracts at not less than the reasonable fair market value.



Mr. Hancock urged that the present active market be taken advantage of in the disposal of all properties which could not be used as part of the Tenant Purchase program. He urged that priority be given such sales.

It was urged that the regions increase the rate of disposition of their subsistence, part-time farm, personnel units and other non-farm residences. Such sales should be made at reasonable fair market prices. Sale of personnel houses, teacherages, etc. to operating cooperative associations other than for use by association employees was discouraged.

In a discussion concerning appraisals of property being sold, it was agreed that the earning capacity appraisals comparable to that used as a basis for making Tenant Purchase loans was suitable for use in establishing values in sales of project economic family-size farms. All other property, including sale of land and facilities to cooperative associations, is to be appraised at the reasonable fair market value for use, together with other pertinent data and considerations, in determining sales prices. It was agreed that other than monetary consideration must enter into particular cases to determine that the sale is to the best interest of the Government. The services of Federal Land Bank appraisers or other independent appraisers are to be obtained wherever the sales proposal required the approval of the Administrator. The regions are to request budgets for such appraisals. A simplified procedure is to be investigated for the employment and payment of such appraisers, perhaps on a letter of authorization basis.

Wednesday, May 24, 1944

#### XIV RESUME OF STATEMENT BY FRANK VAN VOORHEES, COUNTY FSA SUPERVISOR

1. The continual change in supervisors adversely affects the administration of our program at the county level. A supervisor must operate in a county for some time before he can become sufficiently acquainted with the area and the borrowers to establish an effective program of supervision. The carrying through of this program demands continuity in the term of the individual in the county office.
2. The county supervisor cannot be a specialist in all the fields in which he has to operate. He needs technical assistance and training in some of the phases of the program, especially the Farm Ownership phase. The amount of the training and assistance given in the past has not been sufficient to insure adequate and proper attention to such programs.
3. The amount of work to be carried out by a county supervisor with a heavy load does not permit adequate supervision of the borrowers. This leads to failure in those cases which require supervision if they are to succeed. It encourages the supervisor to refuse a loan to those who will need intensive supervision, and to make loans to those who are only in need of adequate, long-term credit.

Mr. Maris called attention to the significance of the fact that lack of sufficient personnel to do the job was forcing Farm Security out of the field of supervised credit and into the higher credit field which is adequately covered by other Government Agencies and private credit sources.



## XV POLICY CHANGES AND PROBLEMS OF OPERATION

### A. Policy Changes

Mr. Hancock appeared before the conference group and asked if there had been any important points of policy brought out during the conference on which administrative decisions were needed. He expressed a willingness to make any such decisions at this time.

Mr. Maris indicated the desire to have all transfer cases not involving loss which were in regional offices on May 15, 1944, handled in accordance with present procedures. Mr. Hancock acquiesced in this proposal and it was agreed that an Administration Notice effectuating the decision would be prepared.

Mr. Maris also made the recommendation that the health examination be eliminated except in cases in which the county committee is in doubt as to the health of an applicant or members of his family and desires the advice of a competent doctor. He suggested that Dr. Mott be called in the conference to join in the discussion on this point. Dr. Mott, however, was not available. The Administrator then indicated that he would sign an Administration Letter making the change in policy effective.

### B. Problems of Operation

1. Section 2 (c) of Title I of the Bankhead-Jones Farm Tenant Act. Discussion revealed that in some areas strict adherence to this provision of the Act was sometimes difficult because the inhabitants were so inter-related. It was finally concluded that we should be extremely careful in the operation of our program in such areas so as not to violate this provision in the Act.

#### 2. FE Loans

Several of the regions, particularly Region X, indicated a need for clarification of the policy regarding Farm Enlargement loans. Mr. Maris reviewed briefly the reasons which had led to the suspension of this type of lending activity at the beginning of the fiscal year 1943-44. He explained that the Solicitor's office has ruled that Farm Enlargement loans were permissible, and that there was no disagreement on this point. In view of the fact, however, that these loans had not been made during the first five years of the program and there had been no definite expression of the viewpoint of Congress with respect to such loans, the Administrator was reluctant to continue them without a clear indication of the intent and wishes of Congress. These facts were set forth in a letter to Congressman Cooley from the Administrator. The Congressman has advised the Administrator informally that the matter has been discussed and it is generally understood that such loans are authorized and necessary. It was agreed that an Administration Notice lifting the ban on enlargement loans would be submitted to the Administrator for approval.

#### 3. Delay in Processing Transfer Cases

Field representatives reported undue delay in processing transfer cases through the National Office which involve loss to the Government and



equity payment to the borrower, and it was pointed out that such delay causes embarrassment and operation difficulties in the field. Mr. Maris indicated that the situation is recognized and the matter would be reviewed with the Administrator for the purpose of correcting the situation.

#### XVI INSURANCE - Resume of Statement by Hiram L. Welsh, Supervisor of Insurance Unit

Pressure focused on the Farm Security Administration from outside insurance interests and individuals (indirectly through their Congressmen) questioning present FSA policy in regard to insurance, demanded a thorough study and review of our present over-all real property insurance program. In earlier days there was apparently no objection when Government-owned property was insured in the name of the Government. However, with the introduction of the Farm Ownership program and the liquidation of management projects, under which properties are owned and insured by the individual borrowers, adverse criticism resulted. One major point of criticism was the monopolistic nature of the contract.

As you know the insurance committee, consisting of L. H. Hauter, James H. Dance, B. W. Lodwick, C. Carter Chase, T. B. Fatherree, Julian Brown, W. J. Green and myself met in Cincinnati, January 8 and 9, 1944 for the purpose of giving full consideration to the adequacy of our present program. In addition, the Administrator decided to have a committee outside the organization composed of competent insurance experts look over our insurance set-up before making any definite decisions. This committee was composed of the following: Dr. V. N. Valgren, Insurance Economist, BAE; McAlister Carson, Past President of North Carolina Insurance Agency Associations; Charles L. Boteler, Past President, Mutual Agents Association. All were practical insurance men and it was felt that they could render a real service in giving their unbiased opinion of our present insurance program.

The committee interviewed the administrative people concerned in the National Office and visited Regions IV, I, II, and V, in the order named. Their report is now in process of preparation and it will be submitted to the Administrator in the near future. I will not divulge the findings of the committee today but will wait for the official report.

Some time ago it appeared desirable to relieve the Insurance Loss Settlement situation, made difficult by war conditions, through the cash settlement method. In this connection a proposed Administration Letter has been prepared for review by this conference group.

As a result of reading and discussing this proposed AL changes in a number of points were made. Mr. Welsh assured the conferees that this new procedure, which would supplement FSA Instruction 452.1, would soon be issued to the field.

#### XVII PROPOSED TRANSFER PROCEDURE

As mentioned elsewhere in the journal it was administratively determined to process all transfer cases submitted to the Regional Office prior to May 15, 1944, in accordance with existing procedure, and subsequent to that date to process all such cases subject to a new procedure.



This proposed procedure covering only cases involving no financial loss to the Government and prescribing a policy of accepting deeds in lieu of foreclosure rather than transferring directly from one borrower to another was prepared by the Solicitor's office and reviewed before the conference by Mr. Veeder. As a result of this review certain changes were suggested for incorporation into this procedure.

Immediately following this discussion the conference group expressed the need for having new procedure released to the field covering transfer cases involving loss to the Government.

### XVIII ANNUAL COLLECTION REPORT

The following mimeographed tables prepared by Mrs. Donner from FSA Report 678 and other supplemental reports issued by Finance were distributed and discussed:

- Table 1. Schedule Status of Variable Payment Borrowers
- " 2. Prepayments and Delinquencies of Fixed Payment Borrowers
- " 3. Actual Payments by Variable Payment Borrowers
- " 4. Actual Payments by all Tenant Purchase Borrowers compared with amounts which would have been due under a fixed payment plan.
- " 5. Number and Amount of Farm Security Administration Chattel and Operating Loans to Farm Ownership Borrowers, Principal and Interest Payments Made and Principal Balances.

Mr. Maris emphasized that our reports should be prepared so as not to conceal anything from Congress or the Public. Special consideration was then given reports on delinquent variable borrowers. Field experience indicated that a good number of variable borrowers are delinquent because of technical errors, and it was pointed out that a number of cases reported as delinquent were actually two years ahead of schedule. Technical errors are attributed to three factors: (1) Errors in the record book, (2) Improper disallowance of expenses by the supervisor, (3) A difference of only a small number of cents between the amount prepaid by the borrower and the amount billed. It was agreed that further training was necessary to correct this situation in the future.

In closing the discussion, Mrs. Donner stated that the National office would request each region to submit their FO delinquency report.

### XIX SUPERVISED BANK ACCOUNTS

As a result of a brief discussion led by Miss Walsh, it was concluded that the policy in connection with supervised bank accounts would need further study in view of the legal problems involved in connection with making additional advances for improvements some time after the closing of the loan. As soon as definite decisions are made the field personnel will be advised.

### XX RECORD BOOKS

Each regional representative was requested to comment on the present record



book now being used by FO borrowers. A summary of these comments revealed that all regions except V and VI were of the opinion that the record book should not be changed. Furthermore it appeared that in all regions except V and VI only 5% or less of FO borrowers could not keep records when given supervision. Several regions brought out the fact that many borrowers really appreciate the value of records as they requested record books after their loans were paid off and they were no longer in the program.

Regions V and VI indicated that in those regions a more simple record book would be helpful. It appeared that even with supervision there were 25% of the FO borrowers in Region V and from 25% to 40% in Region VI who cannot maintain the present record book. Mr. Fatherree expressed the opinion that the present record book is too complicated and contains too many pages. He left some specific suggestions with Mr. Maris for a more simple book. There was general agreement among the conference group that the inventory and itemized statements of income and expenses were essentials for the record books, but that the tables devoted to analysis could be eliminated, thus giving the book a simpler appearance.

#### XXI ANNUAL BORROWER MEETINGS

The conferees unanimously agreed that Annual Borrower meetings should be continued. However, it was decided that more training should be given to the field personnel, especially the district supervisors, who are responsible for holding such meetings. It appeared that the annual borrower meeting is given comparatively little time on the district supervisor's training schedule. Several regions indicated that the National Office could render more assistance with respect to program material for these meetings.

It was the consensus of opinion that the reports on Annual Borrower Meetings failed to present the true picture of the actual results obtained. It was recommended that reports (No. 1 and 2) in the Annual Borrower Meeting folder be revised.

At the conclusion of the discussion Mr. Maris indicated that in the light of the statements from the various regions he felt that his remarks on the subject of annual meetings in his opening statement to the conference had been too pessimistic, and that the informal reports just presented were very encouraging.

#### XXII COUNTY COMMITTEE TRAINING

It was concluded that County Committees now need "in-service" training to assist them in doing a better job. We've already given them "induction" training which acquainted them with the program and their responsibilities, but now that they have had experience in the program further training would be very effective.

A brief discussion of State Committee activity revealed that about 50% of our State Committees are inactive.

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Conference Adjourned 4:00 P.M. Wednesday, May 24, 1944







## FACING UP TO OUR ADMINISTRATIVE RESPONSIBILITIES

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Statement by Paul V. Maris, Director of Farm Ownership Division at Opening of a Conference of Regional FO Representatives, Washington, D. C.

May 19, 1944

The Administrator's letter authorizing this conference stated that it is to be devoted to a consideration of FO problem cases with special reference to the proper administrative handling of those borrowers now in the program who are not making satisfactory progress and the adoption of measures designed to prevent the development of problem cases in the future. A program has been prepared to guide our deliberations, which is consistent with this statement. You will find many topics on the program which we have discussed on other occasions but they will be discussed now with special reference to the cure and prevention of problem cases.

A brief way to state the purpose of the conference is "Facing Up To Our Administrative Responsibilities." The group of persons here assembled has for the time-being been entrusted with the destinies of an undertaking the outcome of which will vitally affect the welfare of agriculture and the welfare of the nation. It is a sobering responsibility. It calls for the best thinking and the wisest action of which we are capable. That is the meaning of "Facing Up To Our Administrative Responsibilities."

### THE STAGE SETTING

As always, it appears logical that the starting point of our deliberations be a brief consideration of the setting in which we operate. We are in what we believe to be the conclusive stages of the war. The prevailing public attitude toward the outcome and toward the future is one of optimism and hope. If this were not true we would not be meeting as we are. We would be wholly unable to focus our attention upon matters that relate to promoting the ownership of family farms in America if an Axis victory were imminent.

With reference to the Farm Security Administration as a whole it may be said that we are in a period of transition both legislatively and administratively. The Congress has not yet determined what the nature and scope of Farm Security functions shall be or what the overhead administrative structure and relationships shall be. Indications are that the activities authorized under Title I of the Bankhead-Jones Farm Tenant Act will be continued and probably expanded to care for the settlement of veterans and others on farms after the war. But the manner in which this is to be done is yet to be determined.



With respect to the administrative transition there has been a notable gain in public confidence attributable to present leadership. Basic policies and objectives have been clearly defined. Some very important administrative decisions affecting organization and personnel cannot, however, be made in advance of legislative action. This fact is stated in order to make plain the reasons why it is not practical at this time to discuss certain questions in which we all have deep interest and concern. The matters that we are to discuss and the problems we hope to resolve are those that are likely to concern us under any conditions that are likely to prevail.

### THE FAMILY FARM IS SECURE

There is one matter of general nature to which we may well direct our attention before proceeding with the main theme of the conference. I refer to the place of the owner-operated family farm in our agricultural economy. Do prevailing conditions and the future outlook warrant the assumption that this traditional institution will be able to survive in this country? I believe that public thinking upon this point is crystalizing in support of the idea that a mid-twentieth century model family farm should be and will be predominant in our American system. The following are a few of the evidences and authoritative opinions upon which this conclusion is based: First of all, the family farm has stood up best under the rigorous test of war time conditions. The supply of and demand for labor has been in best balance on family farms. There is under-employment and waste of manpower on small uneconomic farm units. There has been a labor shortage on the large industrialized farms necessitating an extensive organization for labor recruitment and placement. This organization operates on an international scale at public expense. In other words, it has been necessary in war time to subsidize the large scale industrialized farm.

That Congress remains steadfast in its support of the family farm objective is evidenced by the expression "to promote farm ownership," in the title of H.R. 4384, which we know as the Cooley Bill. It is clear from the text of the bill that it is the family farm which is supported.

Representatives of land-grant colleges and the United States Department of Agriculture at their meeting in Milwaukee in July 1943 went on record to the effect that "We believe that the scale of public policy should be tipped in favor of family farms that are efficiently operated and that yield a satisfactory level of living." That statement is embodied in the publication "The Farmer and the War No. 7" of the Department of Agriculture entitled "What Post-War Policies for Agriculture." Since the Milwaukee meeting the respective states have surpassed all previous efforts in the field of agricultural planning. The first sentence in a summary of state reports dealing with "Land Tenure Problems and Their Solution After the War" reads as follows: "The State reports almost unanimously agree on the advisability of renewed effort to strengthen the position of family farms in America; in addition they suggest that a larger proportion of these



farms be owned by those who till the soil." Under the auspices of the Department's Interbureau Committee on Post-War Programs a work group representing various bureaus and agencies in the Department interested in land tenure has collaborated in preparing a document entitled "Guiding Principles for Successful Resettlement of Veterans and Others on Farms." A significant statement in that report reads: "The family-type farm operated by its owner should be the ultimate tenure goal toward which placement in farming is directed." A group of land economists in the agricultural experiment stations representing thirteen North-Central states has, after three years' work, completed a report soon to be issued entitled "Improving Farm Land Tenure in the Midwest." The introduction to this report contains the statement "It is still considered desirable to have a relatively high proportion of farms of family size operated by the owners."

The foregoing quotations, considering the representative character of their authors, may be accepted as reflecting prevailing opinion on the place of the family farm in our present and future economy. Without amplification I used the expression "mid-twentieth century model" family farm. Mechanization has made this 1940 model a somewhat larger farm than the family farm of the early years of the twentieth century.

The rivals of the family farm are the part-time farms on the one hand (let us say the left hand) and large industrialized farms on the other hand.

There are many advocates of the idea of part-time farming, but there is much vagueness about the meaning of the expression. Probably it takes in everything from the rural resident living on a parcel of land in a rural setting only a little larger than a typical city lot to the operator of a full-fledged farm, who by dint of great energy and long hours, manages two full fledged jobs. In between these extremes is such a farm for example as that operated by a mail carrier or school bus driver who has enough time left over after completing his daily circuit to carry on limited farming activities. The rural resident isn't a farmer at all in the true sense. The full-fledged farm run along with the full-fledged business will not become a prevailing pattern just because few people can or will stand that pace very long. We need clarification of the place of the real part-time farm in our economy. There is no occasion whatsoever to consider it in a competitive sense. Our concern should be the welfare of the country and the welfare of the people who operate under various systems of farming. Very often there is an absence of sufficient attention to whether the two parts of a double based enterprise add up to one decent living for a family. If they do there is no cause for concern but to the extent that they fall short of this standard and to the extent that part time farming is unstable and precarious, it is undesirable.

As to the large-scale industrialized operation, its future depends very much upon the living standards of the laborers employed on such establishments. If the standards of the people who work as hired laborers on big scale farms



are to be comparable to those of successful owner operators of family farms, it is questionable whether big scale establishments will make great gains.

#### DEGREE OF SUCCESS ACHIEVED

The purpose of the foregoing discussion is not to bolster the case of the family farm. There is no occasion to feel, however, that we are laboring in a lost cause nor can we find in the situation as it exists any alibi in case our efforts are unsuccessful. Informed judgment clearly supports the proposition that the family farm still merits a dominant place in the scheme of things. It would appear to be up to us, therefore, to establish borrowers on family farms in such a way that they will succeed.

How successful is the Farm Ownership Program? Stated in another way, to what extent are Farm Ownership borrowers succeeding? I am proposing that we answer this question on the basis of a thoroughgoing appraisal of available facts. We have back of us an operating history covering a sufficient period of time and sufficient volume of business to permit a partial if not a conclusive evaluation.

The public will be the final judge of our success or failure. At the present time the verdict of the public is favorable. Under the title "Tenant Purchase Program" the Select Committee of the House Committee on Agriculture to Investigate the Activities of the Farm Security Administration said "The investigation discloses that the tenant purchase program as such has been operating efficiently and has resulted in many worthy citizens being placed definitely on the road to farm-home ownership . . . Payments have been made in excess of maturities . . . The tenant-purchase program operating as it has through local committees of farmers, has been successful and should be continued and expanded in the interest of worthy citizens who cannot otherwise arrange to finance the purchase of family-size farm units and who without such assistance may never become home owners." That is a pronouncement of success from a high source. A recently prepared summary of the reports of the respective states on "land tenure problems and their solution after the war" contains the statement "As a means of increasing farm home ownership and strengthening the family farm, many reports favor continuation and expansion of the Tenant Purchase (Farm Ownership) program to assist qualified farmers who would otherwise remain unduly on the lower rungs of the agricultural ladder." That summary also says "the important role of variable payments is well recognized and receives considerable emphasis."

I assume that no one here would conclude from the favorable statements just quoted that there is no justification for a conference dedicated to the proposition of facing up to our administrative responsibilities. I now suggest, as a great contemporary American frequently suggested a few years ago, "Let us take a look at the record." Parenthetically, I wish to express appreciation to the Finance Division which got this collection report to us on time and to Mrs. Donner who worked under great pressure to have the tabulations ready for this occasion.



Let us examine the record against the circumstances under which farmers in general operated during the year 1943. They were unprecedentedly favorable. Just how favorable present circumstances are is indicated by an estimated net cash income from agriculture of \$16,260,000,000 in 1943 as against \$13,052,000,000 in 1942 and \$8,876,000,000 in 1941. The figures for 1919, the previous all time high, were \$11,809,000. Nineteen forty-two was a record breaker. Nineteen forty-three was a record smasher with a margin of four billion dollars above the 1919 high water mark.

Now for the favorable part of our own record. As of December 31, 1943, 30,495 active FO borrowers had payments falling due. The amount which would have been due for these borrowers under fixed payment schedule would have been \$19,234,611. The amount paid excluding extra payments was \$28,445,624. This means that our borrowers on the basis of accumulative record down to the end of the year 1943 were \$9,211,013 or 48% ahead of schedule. Besides this they have made extra payments totaling \$7,937,497 - (\$3,831,812 refunds, \$4,105,685 sale of mortgaged property and advanced payments)

19,654 of these borrowers had borrowed money from Farm Security for operating purposes. Their operating loans totaled \$23,508,865. Against that amount they have paid \$9,458,324 of principal and \$1,273,018 of interest. The chattel debt outstanding is \$14,050,540 or an average of about \$700 per borrower.

In the total this is a good picture and there is no denying the fact that a great majority of all borrowers are doing exceptionally well.

13,856 out of 24,328 variable payment borrowers or 57% of them are ahead of schedule. The average amount by which they are ahead of schedule is \$736.

Let us look now at the darker side of the shield. 4,413 variable payment borrowers or 18% of all of them are on schedule. They are neither ahead nor behind. Bear in mind we are discussing the position of these borrowers after one record breaking and one record smashing year.

Worse still, 6,059 borrowers or 25% of the total of all variable payment borrowers are behind schedule and the average amount by which they are behind is \$209. This reflects a very slight improvement over last year when 25.9% of the variable payment borrowers were behind schedule and the average amount by which they were behind was \$217 - just \$8 more than the average this year. We anticipated improvement on this point, but in round numbers we can say that we have made no improvement.

Now let us come to the blackest page in the record if we are to use the language of the street. If we are to use the language of the accountant, it is the reddest page in the record. Of 6,167 active fixed payment borrowers having payments due December 31, 1943, 990 or 16% of them were delinquent and they were delinquent by an average of \$204 per borrower which means, of course, that some of them are lagging way behind at the end of one record breaking and one record smashing year and no bad year since this program started.



It is because of this record that you have been asked to come to town. It furnishes ample justification for coming to town even though some of you journeyed several thousand miles to get there.

Nor have we invited you to town just to talk the matter over. We are here to lay plans to cope with this situation. While we are talking about fixed payment borrowers who are delinquent I want to put into the record a few excerpts from the proceedings of the Farmer's Home Corporation Board bearing on this point. Under the date of October 27, 1939, the following question was put up to the Board:

"How much leniency shall be accorded to delinquent borrowers who fail to take advantage of the variable payment provision?"

The issues involved were presented to the Board in these words:

"Our long-time collection record will be very much affected by our answer to this question. The public's verdict as to the success or failure of the program will also depend very much upon the collection record. In fact we feel that the collection record this year will influence legislative action adversely if it is a bad record. Conversely, a good collection record will greatly strengthen the TP program legislatively.

"Stating the issues briefly, there are a good many borrowers who are anticipating leniency on our part in the event that they fail to make payments under the fixed payment plan. They prefer to go along on the fixed payment plan, presuming upon this leniency rather than adopt the variable payment plan under which they will be obligated to make large payments in good years and little or no payment in bad years.

"Viewing the matter from the standpoint of the welfare of the borrowers in the long run, it is my recommendation that we pursue a firm policy from the outset with respect to delinquencies on fixed payment borrowers. If it develops that the borrower has not been properly advised by the supervisor our duty in that instance is to put the supervisor in line."

The action taken by the Board is revealed by these excerpts from the minutes of the meeting of November 1, 1939.

"Collection Policy: The two members of the Board considered this question at considerable length. They concurred with Dr. Alexander in his judgment that a firm policy with respect to collections should be pursued at the outset, holding that the opportunity to elect the variable payment plan obviated the necessity for delinquency on the part of borrowers really desirous of meeting their payment schedule."

The foregoing quotations include certain predictions which have now materialized. We have in round numbers a thousand fixed payment borrowers who are delinquent. Each and every one of them could have transferred to the variable payment plan had he so desired. It would only have been necessary for him to agree to pay more than schedule in good years in return for



the privilege of paying less in bad years. If these fixed payment borrowers have been well and fully advised their present position amounts to presuming upon leniency which they have forfeited all right to expect.

The policy set by the Board in 1939 has never been altered. It was reiterated by the Administrator in his letter of December 8, 1943, in which he said:

"Delinquencies on the part of fixed or variable payment TP borrowers are definitely inexcusable and should be eliminated as expeditiously as practicable by special servicing or by recourse to the remedies provided for protecting the Government's securities."

I do not want to detract attention from the 18% of variable payment borrowers who are merely on schedule, much less than the 25% who are behind schedule. That record is sadly out of line with the times. Correcting it is part of the task we are here for. Furthermore, there are some variable payment borrowers who are delinquent. They have been billed according to their ability to pay but they have failed to pay on that basis. They stand along with delinquent fixed payment borrowers in a position that is distinctly not creditable.

I am not setting up debt repayment as the sole measure of success. It is the measure that the public will use almost exclusively and it is the best all around measure of success. However, a borrower who keeps up his payments on his real estate debt by selling off his livestock, by taking more out of his land than he puts back, by letting his improvements and machinery wear out without replacement, may appear to be succeeding when he isn't. Our standard of success calls for the maintenance of land, buildings and improvements as well as meeting debt payments and getting out ahead of schedule in good times.

A borrower may appear to be succeeding who is denying himself and his family the food, clothing, education and conveniences of life that are generally accepted as essential. Such a borrower by our standards isn't succeeding. The end-product of our efforts is a worth while standard of living and we want this standard maintained, the farm maintained and the debts repaid. That simple definition of success will suffice for our present purposes.

#### DEFINITION OF PROBLEM CASES

Problem cases include all of those who are not succeeding, whether their lack of success is due to not making enough money to meet their obligations or failure to manage affairs well after an adequate income has been obtained. Problem cases may also include those who are doing exceedingly well financially, so well, in fact, that they can quite freely engage in practices which if engaged in generally would undermine the program. They may violate many policies such, for example, as keeping records of income and expenses. Such records provide the basis for the guidance that is necessary to make a 100% loan feasible. A man whose money-making ability is such that he can get



along without this may do a disservice to the program by refusing to keep a record and thus set a bad example for others.

"With these comments about unsuccessful and successful problem cases, I shall go no further in the direction of a definition of problem cases. We have on the program for this afternoon the subject "Classification of Problem Cases." It will be the task of this group to work out and agree upon a classification that we can use in formulating plans for dealing effectively with each type of problem case.

#### FAMILY SELECTION

We should consider this question from the standpoint of its bearing upon problem cases and from the standpoint of any new or special problems related to family selection.

One pertinent question that can come either here or under the heading of farm selection is this: Has experience of the past year indicated that we were wise or unwise in delegating FO loan approval authority to District Supervisors? A few other pertinent questions are these: Does the "Informal Agreement" (FSA 317) cover the points on which there should be an understanding between the borrower and the lender if we are to attain the objectives implied in the Act under which we operate. How can we exclude families who are likely to violate the terms of this agreement? Are Supervisors and Committees sufficiently alert on this point?

Under the date of April 20, 1944, I addressed a letter to each region on the subject of cost of health examinations. Some conclusions appear warranted on the basis of the answers received to this letter. I will omit a discussion of details until we reach that topic of the agenda and merely state now that it is my belief that medical examinations should be required hereafter only in cases in which county committees and county supervisors consider them necessary in deciding doubtful cases. Coincidental with abandoning required health examinations we should inaugurate more effective measures of creating health consciousness on the part of families and of stimulating health practices.

#### FARM SELECTION

We need to know the extent to which lack of progress among borrowers is due to lack of adequate land resources for successful farm operation. Of all the interesting and significant data compiled from the records of our borrowers, none is more interesting or significant than that showing the relationship between prices paid for farms and the income derived from farms. Although it is reasonable to assume that when prices paid for farms are based on earning capacity values low prices portend low incomes and high prices portend high incomes, there is an amazing and wide-spread tendency to disregard this principle. We have learned our lesson, however, and if we apply it with intelligence, we will substantially reduce the future number of the problem cases.



We need to determine the extent to which the price limitation, incorporated in appropriation acts since 1941, is causing us to err in this matter of making loans that will evolve quickly into problem cases. Also we need to think clearly about what we are going to do now about the problem cases already on our hands that are due to inadequacy of the farm. If the farm can be made adequate by good methods of farming it isn't intrinsically inadequate. I am speaking for the moment of farms that ordinary human beings, given such measure of supervision as we are able to give, won't produce enough income to support their occupants and retire the debts against them. Wherever our diagnosis shows that to be the case under existing circumstances, it is certainly going to be true under any conceivable circumstance likely to prevail. We are doing injury to both the borrower and the program if we temporize with situations of this kind. The remedy is enlargement or repossession.

There is confronting us now the baffling question of inflated farm prices. We have asked you for reports upon this situation by states and counties and your replies have been tabulated and when we come to this topic on the agenda Mr. Pope will present a summary of the situation. The policy of the Farm Security Administration has been clearly stated in Administration Notice 541 and in the press release on this subject based upon the Administration Notice. There has been ample evidence of approval of the policy of loaning money for the purchase of farms only when farms can be bought on the basis of long-time earning capacity values.

The desire to follow the upward trend of farm prices has focused attention upon the long-time average prices of farm commodities used in connection with our farm appraisals. The averages for the years 1930 to 1939 are used in general but that is because specialists in the field of price trends and forecasts consider these prices to be the best indication of those likely to prevail in the future. That is the thing we are striving for. We have consulted and will continue to consult the best authorities on this subject here in the Department of Agriculture. There is only one way to discharge the responsibility which is implicit in the Administrator's promise to Congress and to the public, that we will quit loaning money to buy farms when they can't be bought at prices consistent with earning capacity values. That is to have uniformity with respect to the prices used in these calculations. By uniformity I mean only such variations from the price schedules issued as Exhibit C of FSA Instruction 622.3 as are warranted because of regional or geographic differences. Deviations from approved long-time price schedules must be approved nationally.

#### SUPERVISION

There is a very direct relation between the effectiveness of supervision and the number of problem cases.

With respect to supervision I should like to draw two contrasts. First, the contrast between supervision that is vital and supervision that is superficial. Second, the contrast between supervision that is tolerable and supervision that is intolerable.



The implications back of these two contrasts will be evident. We are supposed to extend credit to a class of borrowers who are unable to get credit from other established sources to purchase farms. The legitimacy of this type of credit rests solely upon the effectiveness of supervision. Supervision must be vital or it can't survive as a basis for a special type of credit. Those who object to every feature of supervision that is difficult or time consuming and who demand that all phases of supervision be made simple and easy are not only seeking the impossible but they are also pursuing the shortest and surest route toward the elimination of supervised credit. Let's face squarely up to one fact. Turning an unsuccessful farming enterprise into a successful one just doesn't happen to be a simple and easy matter.

Supervision can not be something that is intolerable to the beneficiaries. It must be generally acceptable and it ought even to be appreciated. Human nature is so constituted that it may be a bit too much to expect that a service such as ours will enlist widespread expressions of approval and appreciation from our clients. There is a deep seated tendency among human beings to explain success as the self-made product of self-made men.

Our borrowers have not complained of over-regimentation or of undue restrictions or lack of personal freedom and that sort of thing. We do not want them to have occasion to do so. Nor do we want them to fail because they are not following good farming methods, good home management and good money management methods. It is implicit in our relationship with our borrowers that they shall not be deficient in these respects. In our recent correspondence on the subject of work-load equivalents we had a very thoroughgoing discussion of this subject. To bring the matter back freshly to your mind I wish to quote a portion of my letter to you under the date of February 4, 1944.

"The question for us to think about, however, is whether the present work unit equivalents are what they ought to be; the purpose of this letter is to invite your attention to that point. Why, for example, should a supervisor devote three times the effort to an FO borrower established on an improved FO farm and making normal progress than he devotes to a standard RR borrower whom he is trying to rehabilitate within a five-year period?

"We stress the importance of getting an FO borrower well set up at the start on an economic unit, with a good layout, a good system of farming and a good working knowledge of our system of planning, budgeting and record-keeping. In other words, we intensify our supervision at the start (two years under most favorable circumstances - three, four or five years under less favorable circumstances). Then, we taper off our supervision until it amounts to little if any more than the annual check-out and attendance at an annual meeting. I know that this is a broad concept and that individual cases will not conform to it precisely. The ultimate success of our program, however, appears to be tied up with the achievement of this goal at least approximately. But, we are far from it so long as the work unit ratio of an established, successful FO borrower to an active



standard RR borrower is three to one. Frankly, I think that when an active standard RR borrower is getting the attention he needs to complete his rehabilitation in five-years time, he will consume twice as much of the supervisor's time and effort as an FO borrower established on an improved farm and making normal progress. In place of the ration being three to one, it ought ultimately to be one-half to one.

#### SPECIFIC QUESTIONS

- "1. Are we at this time over-supervising successful FO borrowers established on improved farms or are we under-supervising active standard RR borrowers?
- "2. Is our policy of intensifying supervision of FO borrowers at the start and then tapering it off to a minimum visionary and impossible of approximate achievement?
- "3. Granting that we have not attained our goal as yet, is our policy of intensive supervision at the start and very little thereafter something we can achieve by degrees after a few years of consistent and determined effort?
- "4. Is the ten to one ratio on new loans one that cannot and should not be narrowed?"

Your replies to this inquiry were on the whole the most revealing and the most gratifying set of letters ever received from regional FO men. They reflect general agreement on all essential and fundamental points. We are, therefore, driving forward toward common aims with a common understanding of the issues and problems involved. It is your judgment that you are not over-supervising FO borrowers at the outset or later on. You have left unanswered the question are we under-supervising RR borrowers. It is perhaps appropriate that you should leave that question unanswered. Nevertheless, we cannot avoid the unfavorable implications of devoting three times as much time and effort to supervising a successful FO borrower established on a good farm as we devote to supervising a standard rehabilitation borrower. If our supervision on successful borrowers is tapered off to that reasonable, tolerable, long-time level which we are aiming at then that time and effort is not enough to rehabilitate the kind of borrower who needs a rehabilitation loan. Harmonizing case load equivalents must be approached from two angles - the angle of giving no more and no less supervision to FO borrowers than they need and the angle of giving no more and no less supervision to RR borrowers than they need.

Our policy is clear, however. Our aim is to get our borrowers well started under good systems of farming and to teach those things that are necessary for them to understand in order to meet requirements implicit in our enabling legislation.

It should be clear that this includes record keeping. In this connection I am sure you will be interested in a few excerpts from the early record of the Farmers Home Corporation Board. (Let no one assume that the Board



exerted no influence upon Tenant Purchase policy. The record reveals that it exercised a very significant influence.) Under the date of July 30, 1938 the question of whether TP borrowers should be required to keep records was put up to the Board in these words:

"The variable payment plan has been in the process of evolution during the entire year. It has been submitted and resubmitted to each region in the field. It has been discussed with Sherman Johnson, Chief of the Farm Management Division of the Bureau of Agricultural Economics, officials of the Farm Credit Administration and a number of State Advisory Committees. The plan is generally favored.

"This plan or any other will involve some administrative difficulties and some administrative expense. The Act, however, authorizes variable payments. It is questionable whether we can or should avoid extending this privilege.

"This plan is dependent upon the willingness and ability of borrowers to keep satisfactory records. In their loan agreement they have agreed to do so. Experience in Rehabilitation and conferences with informed persons in all parts of the country convince me that with few exceptions families approved for TP loans will contain some member who can be taught to keep records.

"I would like to have the issue met squarely, and recommend that we stand squarely on our requirement that records be kept, whether the variable payment plan is followed or not. This is the surest guarantee that supervision will not be superficial. The value of the data assembled on this basis will be almost incalculable."

The action taken by the Board is revealed in the following excerpts from the minutes of its meeting held August 6, 1938.

"Variable Payments: Chairman Brown stated that this subject falls in Dr. Black's special field and asked Dr. Black if he had had an opportunity to examine the plan. Dr. Black replied affirmatively and stated that he could see no reason why the plan will not work if properly administered. He expressed the opinion that the whole scheme will collapse, however, if accurate records are not kept. This, he said, will not be done without proper supervision. County Supervisors should be required to check the records periodically throughout the year and see that inventories are properly entered and that income and expenses are properly recorded. Chairman Brown expressed his agreement with Dr. Black's statement."

The minutes including the above were initialed by Harry Brown, President of the Board, A. G. Black, and members of the Board, and C. B. Baldwin, Acting for Dr. Will Alexander, Board Member and Administrator of FSA.

No one expects other business enterprises to be operated successfully without systems of accounts nor, in this modern age, would it be assumed that a storekeeper should keep his accounts on the back side of the warehouse door or a clean place on the counter. It is taken for granted that good soil conservation practices, use of good seeds, good livestock, control



of pests and control of diseases are all legitimate aims of supervision. It is just as well known by those who have had experience in helping farmers overcome the handicaps of poverty that good records are just as important a factor in successful farming as any other item. Farming would be unique if this were not the case. It so happens that farming is not unique. I am aware that some folks can't keep records. We do not require the impossible and those who simply can't keep records are not in fact our primary problem.

I have discussed this matter with many of you and I have concluded from what you have told me that many borrowers recognize the value of records and are glad that they have mastered the task of keeping them. If we were to dispense with the requirement that records be kept by FO borrowers or make record keeping optional, we would take a long, ill-advised and regrettable step backward. What has been done for FO borrowers in this matter of record keeping is a noteworthy and outstanding achievement.

### COLLECTIONS

It is this subject and related subjects upon which we wish to concentrate our major thought at this conference. Two things are needed, first, a better administration of the collection techniques that have already been developed and second, the development of some new techniques, particularly with respect to analyzing, classifying and servicing problem cases.

We can afford to go back to basic principles for a starting point. In this connection I wish to quote a few passages from the Administrator's letter of January 27, 1944, entitled "Collection Policy." "This policy must rest upon the cardinal principle which underlies all credit; namely, that a legitimate debt obligation is something which must, within the limits of reasonable possibilities, be fulfilled. We cannot afford by precept or example to weaken or undermine that principle . . . Fulfilment of current debt obligations, both RR and FO, must take precedence over items not included in approved farm and home plans and also over anticipated future financing needs . . . The best way, in my opinion, to eliminate recurring annual loans to finance production operations is to increase the earnings and net worth of borrowers by sound rehabilitation methods until they gradually accumulate the working capital they need. Under this policy true rehabilitation will be achieved through the application of thrift and enterprise on the part of the borrower. There can be little rehabilitation when the borrower stands still or slips backward while the creditor substitutes ill-advised tolerance or harmful indulgence for worthwhile assistance."

Further light is thrown upon underlying principles in the following quotation from the Administrator's letter sent to county committeemen under date of December 13.

"I want to see help extended to worthy farm families who will help themselves. I want to see that help extended in a way that will make the recipients independent of help and able to carry on without public assistance in the shortest possible time. I want the loans that we make to go to



family-type operators who are unable to get loans elsewhere at reasonable terms. I want them to be kept within the limits of good business practice and I want them to be repaid. I consider our supervisory services to a certain extent even more important than loans and, therefore, I want to see these services so rendered that our borrowers everywhere will be found doing a good job of farming and home making and a good job of managing their business affairs."

The above quoted statements constitute a clear-cut collection policy. While they are firm they are consistent with our fundamental objectives. They are fixed. They may be expected to stand. It becomes our responsibility, therefore, to see that they are executed. We ought to understand very clearly what it means to carry out such a collection policy. I submit three things as being essential to its execution.

1. We need to know with reasonable accuracy how each borrower is getting on financially at the close of each year, at least until he has quite convincingly demonstrated his ability to succeed and until he has built up a substantial net equity in his farm. I almost feel constrained to pause long enough at this point to permit anyone to speak who is in disagreement with this view. Ample time will be allowed for that, however, when we retrace the ground that I am now covering and discuss point by point each important issue. Naturally, I do not anticipate that anyone will dissent from the general proposition that we must know at the end of each year with reasonable accuracy how each borrower is getting on financially. Our troubles arise in connection with getting those things done that must be done before we can know the essential facts. As applied to farm operations knowing essential facts involves an inventory at the opening and closing of each year. There is simply no escape from that. Progress or lack of progress can be obscured by differences in the amount and value of feed carried over one year as compared with another. This is something that can't be left to memory. Progress or lack of progress can be obscured by the gradual depreciation, without replacement, of livestock or equipment or buildings. It can be obscured by pyramiding or retiring miscellaneous debts. For all these reasons we have prepared very complete instructions on inventory taking. Are those instructions understood and applied? Have we discharged our administrative and teaching responsibilities with respect to them?

There can be no intelligent analysis of financial progress without a record of income and expenses.

The inventory and records are relatively meaningless until they are summarized and brought together in a financial statement which reveals gain or loss in net worth.

It is not easy to do the things which I have listed above as essential to knowing with reasonable accuracy how the borrowers stand financially at the end of each year but when these things are well done supervision is likely to be effective. Now let us proceed to what I propose as a second basic proposition.



2. In the case of borrowers not making progress we need to know whether the lack of progress is due to temporary adversity, an inadequate farm, bad farm methods or management, bad business management or some other determinable cause. We need to know whether the lack of progress is remedial or whether it is not remedial. If it is not remedial we gain nothing by temporizing. If we permit borrowers to lose ground year after year we will be called to account sooner or later and about all we can do on the day of judgment will be to confess our inadequacy. This, therefore, is a matter that is before us for action here and now.

3. Next we need to know that each borrower fulfills his current debt obligations, both RR and FO, and that this takes precedence over items not included in approved farm and home plans and future financing needs. I have quoted that statement essentially from the Administrator's collection letter. I am assuming that the policy is not subject to question or subject to qualifications. There is, however, ample evidence that it is now being freely qualified by a very large number of county supervisors who determine FO payments due. We have the analysis of a certain state on this matter. One hundred and thirteen records of problem cases were examined.

In the first place this statistical analysis threw some light upon a general rule which some authorities have advanced as a check on the soundness of real estate loans. The general rule is that it ought to be possible to retire the loan on a farm out of a fifth of the cash income. One hundred and four out of one hundred and thirteen cases listed as problem cases failed to apply 20% of their gross income to the retirement of the real estate debt. Almost one-half of them (46%) paid less than 10% of their total income on their TP loan. I am throwing this in as general information and come now to a matter which bears directly upon compliance or non-compliance with our policy of meeting debt obligations ahead of capital outlay expenditures and building up operating capital reserves. Well over half of them put less than half of their net cash income into TP payments and bear in mind these were problem cases. Fifteen of the one hundred and thirteen held back half or more of their net cash income for future operating capital. Presumably they did this with the approval of the county supervisor. This is enough to prove the point. The question is what is the remedy. I believe that the remedy is the intelligent application of the collection formula used in working out table C on the front page of the annual income return. Just so long as we fail to master the principles involved in this collection formula, just that long will we fail to carry out a cardinal and fundamental feature of our collection policy.

I am approaching the question now on the assumption that policy is to be complied with. I know of no short cut or easy way to do the job. Our present forms and procedures have been evolved gradually with the aid of persons best qualified on the basis of understanding and experience. They have been simplified to the greatest degree possible by skilled workers who know what they are doing. Surgical operations on human forms or paper forms by any other kind of surgeons are likely to be fatal.

It is my proposal that we master these working tools of ours such as the annual income return that are essential to our trade. This conference is



wide open for suggestions as to ways in which we can develop a better set of tools. The one point on which there should be no compromise is that we do and do well the three things which I have listed as essential to the execution of a collection policy. I do not hesitate to add that I consider it far better to master that which we have evolved than it is to cast it aside, take a fresh start and arrive in the end with something different that will require effort, discipline and persistence to put into effect. But you are urged to express contrary views if you hold them.

### ANNUAL MEETINGS

Under this heading I wish merely to state that annual business and educational meetings of borrowers are doomed to pass out of the picture if there is not an immediate and universal move to prevent it. Attendance is on the down-grade and for the very good reason that too many of the meetings held aren't worth attending. If annual business and educational meetings pass out for that reason they can't be revived. They will be done for. Every failure stands in the way of getting attendance the next year. There is a noticeable grasping for straws to bolster attendance such as bringing in outside speakers and resorting to ceremonies of one kind or another to liven things up notwithstanding the fact that a meeting that conforms to pattern is in no sense deficient in human interest.

We should pause to deliberate before throwing this thing overboard but we should throw it overboard if we are not going to do what it is necessary to make it a success.

The fundamental concept is sound enough. It is predicated upon the proposition that it is an injustice to ask borrowers to keep records if those records are not made to tell a story that has real apparent dollar and cents value. I am for abandoning records if records are not to be analyzed by someone who can make them contribute substantially to success. There can, of course, be an analysis of an individual record that is worth while but I am thinking of that additional value which can be derived from the summarizing and analyzing all the records of all the borrowers in a given county. A man who knows his borrowers and who knows his business ought to be able to present facts and figures based on borrowers records that will merit and draw attendance by both men and women. This is so because the analyses touch pocket-book interests and open the way for group decisions related unmistakably to borrower welfare.

But we are not holding enough of that kind of annual meeting. We have had enough successful ones in enough regions involving various classes of borrowers to prove beyond peradventure that they are worth while, that they save time, that they can if properly handled be institutionalized. It is the deviations from the plan that are causing the trouble. Points brought out in instructions and in post-mortems of annual meetings have not been heeded or even understood by enough persons in high positions, as high let us say as the position of regional director, state director and state FO specialists.



But this is a realistic world. This group ought to be honest enough and courageous enough to face up to this issue. I propose that we do so, that we discuss this matter without reservation and reach a common understanding as to what we are going to do about it.

#### TRANSFERS AND FORECLOSURES

The age of the program plus war time conditions have combined to intensify the problem of transfers and foreclosures. Changes in opinions and legal interpretations have also had a bearing upon our problem. We need to discuss everything related to this question including the release of borrowers from personal liability when transfers are made to other eligible borrowers without financial loss to the Federal Government.

We also should reconsider the present policy of transferring variable payment borrowers to the fixed payment basis preliminary to foreclosure action. I covered this matter in a draft of a letter prepared for release to the field but we have failed thus far to send it out. I want to raise this question when we come to transfers and foreclosures on our agenda.

#### PROPERTY MAINTENANCE

Shortage of labor, shortage of material and restrictions on construction instituted by the War Production Board as a war measure have all combined to interrupt the normal operations of our property maintenance program. In our last pre-war conference we threshed out the question of property maintenance quite thoroughly. We agreed that county supervisors should check annually on the condition of property and that every five years there should be a thoroughgoing inspection of all properties by a qualified engineer. The war has prevented us from putting that policy into effect. The question of property maintenance was discussed with the regional FO representatives who met in Cincinnati in January to consider matters related to property insurance. It was the consensus of those present that borrowers can be doing somewhat more than they are now doing to keep their properties in good order and that it would be a good idea to develop a check-sheet on which each borrower would report annually upon the condition of his property. The borrower's report would be reviewed by the county supervisor who would either agree with the borrower as to what needs to be done or indicate his points of disagreement and his recommendations. This would have the merit of forcing the question of property maintenance upon the mind of the borrower and of the supervisor each year. Some work on a form has been done by Mr. Ross of the MA staff. I think we ought to consider this entire subject. Not only should we see that everything is done even during the war time that is practical to do, but we should be in readiness to inaugurate a special drive just as soon after the war as conditions warrant so that improvements and repairs that are overdue can be made.

Closely related to this question is the matter of unexpended balances in controlled bank accounts since balances are held primarily to meet the



cost of anticipated improvements. There is an understandable reluctance to turn these balances in for the reason that the necessary funds to complete the improvement program may not be available when needed. We have asked you to come prepared to discuss this subject. We could discuss it more satisfactorily and intelligently if we knew exactly what authorizations for loans, for repairs and for improvements will be contained in the bill that finally passes Congress. These conclusions appear warranted however. Large balances should be turned in when there is no prospect that construction can be undertaken and completed in the relatively near future. There is some demand for extending the time allowed for completing construction to two years whether the construction be done by contract or force account. We want to go into that and arrive at an agreement about it.



## A PROPOSED COLLECTION METHOD FOR FO BORROWERS

A collection policy for FO borrowers has been established for some time. It consists of variable repayments based on net cash income distributed according to the formula in FSA Instruction 658.5. The following collection method is proposed to effectuate that policy.

1. At the check-out session with an FO borrower originate a new farm and home plan which is supplemented by an estimate of net cash income for the next year.
2. Establish a dollar collection goal in the borrower's mind and make a record of it.
3. Supervise throughout the year on the basis of this collection goal, with special emphasis on it just prior to the collection season. Revise the goal if conditions change materially. Use the automatic follow-up provisions of the area guide to notify each borrower at the time when income shown on the farm plan should materialize.
4. Collect as the money flows.
5. Adjust to prevent excessive overpayment or under payment by making up a new tentative distribution of net cash income prior to the end of the fiscal year.

## ADVANTAGE OF THE PROPOSED COLLECTION METHOD

1. It provides a definite, systematic method to make borrowers debt conscious and to direct the attention of supervisors to the collection approach in supervision.
2. It is consistent with FSA collection policy.
3. It is adaptable so that strict supervision under the proposed method can be given to a problem case while under the same method supervision can be limited to the needs of a borrower well on the way toward final payment.
4. It will vitalize farm plans, record books and annual income returns.
5. It will help FO borrowers to pay for their farms.



